

Message Text

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ORIGIN ARA-10

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DRAFTED BY ARA/BC/C:RHECHTMAN:BJD

APPROVED BY EB/IFD:PBOEKER

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FM SECSTATE WASHDC

TO AMEMBASSY SANTIAGO PRIORITY

C O N F I D E N T I A L STATE 260122

E.O. 11652: GDS

TAGS: EFIN, ECON, EAID, CI

SUBJECT: FINMIN CAUAS MEETING WITH PAUL BOEKER

1. FINANCE MINISTER CAUAS ALONG WITH CENTRAL BANK PRESIDENT BARAONA, CORFO NEW YORK REPRESENTATIVE UNDURRAGA, AND EMBASSY ECONOMIC COUNSELOR AVETIKIAN, MET OCTOBER 29 WITH EB DEPUTY ASSISTANT SECRETARY BOEKER AND BC OFFICER HECHTMAN TO REVIEW CURRENT BOP AND DEBT RESCHEDULING PROBLEMS.

2. CAUAS SAID THAT FOR 1976 HE SEES AN UNFINANCED DEFICIT OF \$300 MILLION PREMISED ON 65 CENT COPPER.

3. EXPECTED ASSISTANCE MEASURES INCLUDE \$100 MILLION IMF STANDBY IN 1976. (THE FUND'S MISSION IS SCHEDULED TO ARRIVE IN SANTIAGO ON FEBRUARY 22 WHERE IT WILL REMAIN FOR TWO WEEKS TO LAY GROUNDWORK FOR THE STANDBY.) CAUAS NOTED
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THAT APPROXIMATELY \$230 MILLION OF CHILE'S 1976 DEBT IS

RENEGOTIABLE, AND ASSUMING RESCHEDULING TERMSTOBE THE SAME AS IN 1975, THE COMBINATION OF THE STANDBY, PLUS RESCHEDULING AND FORECAST COPPER EARNINGS, WOULD ENABLE CHILE TO MEET THE ANTICIPATED 1976 DEFICIT. HOWEVER, HE WAS STILL UNDECIDED ON RESCHEDULING FOR '76 AND SAW SOME RISK IF CHILE REQUESTED PARIS CLUB RENEGOTIATIONS WHICH FAILED.

4. CAUAS SAID THAT ENGLAND AND HOLLAND CONTINUE TO INSIST ON FULL REPAYMENT OF 1975 DEBT. CHILE HAS PAID BOTH COUNTRIES AN INITIAL 10 IN ACCORDANCE WITH THE PARIS CLUB AGREEMENT. CAUAS SAID DENMARK MAY NEGOTIATE QUIETLY. NEBOT, OF THE FRENCH FINANCE MINISTRY, HAS INDICATED DESIRE TO BE THE LAST PARIS CLUB COUNTRY TO SIGN THE AGREEMENT. CAUAS WAS UNCERTAIN WHETHER THIS IS A PLOY TO DELAY AND OBSTRUCT THE 1976 PARIS CLUB NEGOTIATIONS OR A SINCERE DESIRE TO BE THE LAST OF THE SEVEN CLUB CREDITORS TO SIGN AND THUS "A BRIDGE BETWEEN THE SEVEN AND THE CREDITORS WHO DECLINED TO RENEGOTIATE." CAUAS NOTED THAT THE NEW CHILEAN AMBASSADOR TO FRANCE, WHILE PRESENTING CREDENTIALS, WAS TOLD BY GISCARD THAT HE EXPECTED CHILE TO RELEASE ALL POLITICAL PRISONERS. THIS WAS TAKEN TO MEAN THAT FUTURE RESCHEDULING MIGHT BE CONTINGENT UPON THE RELEASE OF PRISONERS.

5. BOEKER INDICATED THAT NEBOT'S HAND WOULD HAVE TO BE CALLED ON WHETHER THE FRENCH WOULD ACTUALLY NEGOTIATE A BILATERAL FOR '75 ONCE THE OTHER SIX CLUB CREDITORS HAD CONCLUDED NEGOTIATIONS. (CAUAS THOUGHT THAT THE LAST OF THE SIX WOULD BE SIGNED UP BY MID-NOVEMBER). IF THE FRENCH CONTINUED TO STALL EVEN AFTER THIS CONDITION WAS MET, THIS WOULD BE A CLEAR INDICATION THAT THEY ARE BUILDING A CASE FOR RESISTING A '76 RESCHEDULING IN ANY EVENT. BOEKER SAID THAT HIS JUDGMENT WAS THAT THE EUROPEAN CREDITORS WOULD NOT RENEGOTIATE IN '76 UNLESS THE GOC HAD PREVIOUSLY TAKEN SOME DRAMATIC STEP IN THE HUMAN RIGHTS AREA. UNLESS THE GOC WERE WILLING TO TAKE SUCH A STEP, THEREFORE, IT WOULD FACE THE SERIOUS RISK THAT THE FRENCH WOULD ABORT CLUB NEGOTIATIONS. THUS, THE GOC WOULD HAVE THE WORST OF ALL WORLDS IN TRYING TO RAISE PRIVATE

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FINANCING IN THE AFTERMATH OF A FAILURE OF PARIS CLUB NEGOTIATIONS (CAUAS SAID HE WAS WELL AWARE OF THE RISK AND HE EVALUATED IT SIMILARLY). BOEKER UNDERTOOK TO INVESTIGATE THE FRENCH ATTITUDE WITH NEBOT IN PARIS IN MID-NOVEMBER. HE INDICATED THAT HE WOULD BE GLAD TO MEET WITH CAUAS AGAIN AT THE END OF NOVEMBER TO COMPARE NOTES AND HELP CAUAS ASSESS THE RISK OF SEEKING A CLUB RESCHEDULING FOR '76.

6. CAUAS INQUIRED WHETHER A BILATERAL RESCHEDULING WITH THE USG WOULD BE A PARTIAL ALTERNATIVE TO A PARIS CLUB RESCHEDULING. BOEKER INDICATED THAT HE COULD NOT CONTEMPLATE A PURELY BILATERAL RESCHEDULING OF OFFICIAL DEBTS SINCE THE JUSTIFICATION WOULD HAVE TO BE HEAVILY POLITICAL AND THE RESULT, WHATEVER THE MERITS, COULD WELL BE ORTURNED IN THE CONGRESS UNDER THE WOLFF AMENDMENT PROCESS WITH STRONGLY ADVERSE CONSEQUENCES FOR CHILEAN AND U.S. INTERESTS.

7. CAUAS POSED AN ALTERNATIVE TO RESCHEDULING IN TERMS OF A ROLL-OVER OF THE \$70 MILLION "BRIDGE" FINANCING DUE NOVEMBER 23 TO N.Y. BANKS ALONG WITH AN ADDITIONAL \$80 MILLION MEDIUM-TERM LOAN. THIS ARRANGEMENT AND THE IMF STANDBY WOULD ALSO COVER THE DEFICIT. CAUAS MET NEW YORK BANK REPRESENTATIVES (MORGAN, MANUFACTURERS, FIRST NATIONAL CITY, AND BANKERS TRUST) OCTOBER 31.

8. AS A LAST RESORT AND WITH GREAT RELUCTANCE, CAUAS SAID HE WOULD CONSIDER RESCHEDULING COMPENSATION PAYMENTS TO ITT AND U.S. COPPER FIRMS.

9. BOEKER INDICATED THAT IN 1976 CHILE WILL NOT BE THE ONLY COUNTRY FACING EXTRAORDINARY BALANCE OF PAYMENTS PROBLEMS. THE FORMATION OF A NEW IMF FACILITY FOR DEVELOPING COUNTRIES WITH SUCH PROBLEMS IS TO BE DISCUSSED, BUT EVEN IF ESTABLISHED, IT WOULD NOT BE IN TIME TO HELP CHILE IN 1976.

10. BEFORE THE MEETING STARTED, CAUAS TOLD HECHTMAN THAT HE DID NOT PLAN TO MEET WITH IBRD TOP MANAGEMENT DURING THIS TRIP. HE SAID PFEFFERMAN HAD TOLD HIM THAT TWO BANK CONFIDENTIAL

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LOANS (COPPER AND POWER) WERE ON TRACK.

11. UNDURRAGA, REFERRING TO THE MATTER OF FINANCING THE HOUSING GUARANTY, TOLD HECHTMAN THAT SINCE INTEREST RATES IN THE U.S. MARKET APPEAR TO BE FALLING, CORFO PLANS TO MAKE AN INITIAL BORROWING OF ABOUT \$11 MILLION DURING NOVEMBER WHICH WOULD EQUAL THE ESTIMATED INITIAL DISBURSEMENT FOR THE PROJECT. FYI: SER/H HAS NO DIFFICULTY WITH THIS APPROACH. END FYI. KISSINGER

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